



Town of Whitby Policy

Policy Title:	Debt Management Policy
Policy Number:	F 290
Reference:	Council Resolution #190-18
Date Approved:	June 4, 2018
Date Revised:	Not Applicable
Approval:	Council
Point of Contact:	Financial Services Department

Policy Statement

A policy governing the use and administration of debt.

Purpose

This policy establishes principles, objectives, authorized financial instruments, reporting requirements and responsibilities for the prudent debt financing of the Corporation's operating and infrastructure needs.

Scope

This policy applies to the management of all existing debt and the issuance of all future debt of the Town of Whitby.

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1 Definitions

“Approved Annual Budget” means the annual operating budget adopted by Council which is the basis for any tax-rate change in a single fiscal year.

“Approved Capital Budget” means the budget estimate for capital project(s) and or capital program(s) that has been adopted by Council and is the level at which Council approves funding.

“Annual Debt Financing Charges” means the estimated amount of operating budget funds, in a respective year’s Approved Annual Budget, required to meet the year’s share of mandatory payments in respect of outstanding Debentures, i.e. principal and interest payments.

“Annual Debt Repayment Limit” is an internal limit set by this policy for financial sustainability purposes and based on recommended best practices.

“Annual Repayment Limit” for the purpose of this Policy it has the same meaning as the Debt and Financial Obligation Limit.

“Bank Loan” means a loan between the Town and a bank listed in Schedule I, II or III of the Bank Act (Canada), a loan corporation registered under the Loan and Trust Corporations Act or a credit union to which the Credit Unions and Liaison Popularise Act, 1994 applies.

“Capital Financing” is a generic term for the financing of capital assets using reserve and reserve fund contributions, and debt.

“Debenture” is a formal written obligation to repay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured.

“Debt” is any obligation for the repayment of money. For Ontario municipalities, long term debt normally consists of debentures; short-term debt normally consists of notes or loans from financial institutions. Inter-fund borrowing, and debentures issued to Infrastructure Ontario are also considered to be debt.

“Debt and Financial Obligation Limit” is a calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of additional annual debt servicing costs that a municipality can undertake or guarantee without seeking approval of the Ontario Municipal Board.

“Development Charges” means those charges imposed under the Town’s Development Charge By-Law 7255-17 and 7319-17 or as amended.

“FIR” is the abbreviation for the Financial Information Return provided by municipalities to the Ministry of Municipal Affairs and Housing annually. The Ministry of Municipal Affairs and Housing collects financial and statistical information on Municipalities using a standard document comprised of a number of schedules.

“Infrastructure Ontario (IO)” or its successor organization is any entity established by the Province of Ontario to provide Ontario Municipalities, universities and hospitals access to alternative financing and procurement service and to longer-term fixed rate loans for the building and renewal of public infrastructure.

“Inter-fund Borrowing”, under which financial resources are transferred internally from one fund to another with the express purpose to repay the loan plus applicable interest.

“Long Range Financial Plan (LRFP)” models the long term capital and operating budget impacts as identified in the Council approved studies (i.e. Asset Management Plans, Development Charge Background Study), master plans and Council report recommendations, with the estimated future revenue of the Corporation to project the annual tax rate required to construct, operate and maintain the current 10 year forecast.

“Long Term Borrowing/Long Term Debt”, is defined as borrowing for a term greater than a year. Long term borrowing is permissible for capital projects.

“Net Revenue” is the base number that is used to calculate the Provincial and Policy debt limit. The Provincial limit is set at 25% of net revenue which is defined in the FIR.

“Short Term Borrowing/Short Term Debt”, is defined as borrowing for one year or less.

“Reserve(s)” means a fund that may be for a specific purpose but is considered discretionary in nature. Interest is not earned on those investments.

“Reserve Fund(s)” means a fund that is segregated and restricted to meet a specific purpose. Monies set aside for a reserve fund(s) must be deposited into a separate bank account and the interest earned on those investments must be added to the reserve fund(s).

“Sinking Fund” means a segregated pool of funds managed by the Region of Durham for which an estimated amount in each year, with interest compounded annually, will be sufficient to pay the principal of the related Sinking Fund Debentures at maturity.

“Retirement Fund” means a segregated pool of funds managed by the Region of Durham for a class of Debentures other than a sinking fund or term Debenture. In each year the fund must contain an amount equal to or greater than the amount required for the repayment of the principal of specific Debentures in that year if the principal had been payable in equal annual instalments and the Debentures had been issued for the maximum period authorized by the municipality for the repayment of the Debt for which the Debentures were issued.

2 Principles / Objectives

2.1 Philosophy for Debt Issuance

The capital financing program including the utilization of long term debt will be managed in manner consistent with other long-term planning, financial and management objectives.

Prior to the issuance of any new debentures, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes.

Debenture practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and nature of the expenditure.

2.2 Primary Objectives of the Debt Program

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be;

- Adhere to statutory requirements;
- Ensure long term financial flexibility;
- Limit financial risk exposure; and
- Minimize the long-term cost of financing.

2.3 Adhere to Statutory Requirements

Capital financing utilizing debt may only be undertaken if and when it is in compliance with the relevant sections of the Municipal Act. Requirements include but are not limited to the following

- The term of temporary or short-term borrowing for operating purposes will not exceed the current fiscal year;
- The term of the capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset;
- Long-term debt (borrowing) will only be issued for capital projects;
- Under Section 401 of the Act, the Region of Durham issues long term debentures (including any Infrastructure Ontario loans) for the Town. This includes arranging debenture financing; collection of interest and principal; Act compliance and the administration of Sinking Funds and Retirement Funds.
- Under Section 401 (3.1) of the Act, debentures constitute direct, joint and several obligations of the Region of Durham and its lower-tier Municipalities.

2.4 Ensure Long-Term Financial Flexibility

To the extent possible, regular and/or ongoing capital expenditures and the current portion of future rehabilitation, and replacement costs will be recovered on a "pay as you go" basis through rates, tax levy, user fees and or reserve fund monies. Adequate reserves must be developed and maintained for all capital assets owned by the Corporation to ensure long-term financial flexibility. However, where long-term financing is required, due consideration will be paid to all forms of financing including debentures, and inter-fund borrowing.

2.5 Long Term Financial Sustainability and Flexibility

Some key indicators which will influence the utilization of debt in the approved Capital budget, and which the Corporation will monitor to ensure long-term financial sustainability include (but are not limited to):

- Debt Interest as a % of Net Revenue;
- Debt Charges as a % of Net Revenue (Debt Service Ratio);
- Debt Outstanding per Capita;
- Debt Outstanding per Net Revenue;
- Debt to Reserve Ratio;
- Debt Outstanding as a % of Unweighted Assessment

The Commissioner of Financial Services / Treasurer will report on these indicators annually during the budget approval process.

2.6 Establishment of the Town's Annual Debt Repayment Limit

The Corporation's debt policy limits the total annual debt repayment costs as a percentage of net revenue to 12%.

Annual debt financing costs for any Development Charges funded debt will be further subject to a limit equal to 25% of the 10 year budget forecast of average annual Development Charges revenues.

To monitor and control the impact of the debt repayment costs on the approved annual budget of any given year, and in consideration of the impact on future taxpayers, the annual approved capital budget will demonstrate a balanced approach amongst all forms of funding, including debt, over a 10 year horizon.

2.7 Availability of Debt Capacity for Future Priority Projects

The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan, based on its annual debt repayment policy limit. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan. Each project will be prioritized by the Senior Leadership Team (SLT) during the budgetary process on the basis of its impact on the Corporation's Long Range Financial Plan and/or the Strategic Plan as approved by Council.

2.8 Limit Financial Risk Exposure

Debt financing will be managed in a manner to limit, where practicable, variations in costs. As a result, it will be the Corporation's normal practice to require that the Region of Durham issue debentures with a fixed interest rate over the issuance term (which eliminates increases in interest costs for the respective debenture issue) and that is only denominated in Canadian dollars (which eliminates exchange rate risk).

2.9 Minimize Long-Term Cost of Financing

Timing, type and term of debt financing for the approved capital budget will be determined in order to minimize the Corporation's overall long-term cost of financing. Typically, shorter term interest rates (five year borrowing rates) are lower than longer term interest rates (twenty year borrowing rates).

In order to minimize interest costs over time:

- In no case, will the term of financing exceed the anticipated useful life of the underlying asset or the maximum term of 40 years, in accordance with the Act.
- In order to minimize the cost of financing, the Corporation can choose a term for the debt that is shorter than the useful life of the capital asset; it is recommended that wherever possible the term of the debt be kept at no more than 20 years.
- In advance of the issuance of a debenture, short-term temporary borrowing for capital projects is allowed. The use of rolling short-term financing may be used for a debt approved capital project.
- Cost reduction factors which influence the timing and type of debt to be considered by the Treasurer or designate include:
 - Timing of costs and revenues related to a project and any offsetting cost savings attributable to a project.
 - The optimal usage of overall cash flows.
 - Capital reserve and reserve fund uncommitted balances vs minimum required balances.

3 Types of Borrowing

3.1 Short Term Borrowing

Short term borrowing is used for:

- To cover a gap in financing for capital projects being financed with long term debt.
- To cover the gap between operating expenditures and the receipt of tax revenues.

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing may be from one or more of the following sources

- Inter-Fund Borrowing from reserves and reserve funds;
- Bank Loan.

3.2 Long-term Borrowing

Financing of assets for a period of greater than one (1) year, may be from any of the following sources.

- Debt coordinated with the Region of Durham.
- Inter-Fund Borrowing from reserves and reserve funds:
 - This option may be used if deemed cost effective or otherwise necessary. However, reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them.
 - For development charges, borrowing is only permitted between development charge reserve funds.

3.3 Inter-Fund Borrowing

Under some circumstances, one fund will provide financial resources to another fund to support its operations.

Inter-fund borrowing is permitted for cash flow purposes where there is a reasonable expectation that the funds can be repaid.

Long term inter-fund borrowing is permitted for capital projects provided that the lending fund has funds available, that the borrowing will not adversely impact the lending fund's long-term financial condition, and that a specific source of repayment has been identified in the borrowing fund.

Applicable interest rates would match prevailing rates, with the exact rate set by the Treasurer. For long term loans, a repayment schedule must be set however, if possible, accelerated repayment is permitted without penalty.

The Commissioner of Financial Services / Treasurer is authorized to approve short term inter-fund borrowings for cash flow or other purposes.

4 Reporting Requirements

In addition to any information requested by Council or that the Commissioner of Financial Services / Treasurer considers appropriate, the following reports will be provided

Annually, the Commissioner of Financial Services / Treasurer shall submit to Council a report, or reports that:

- Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year;
- Requests authority, if required, to finance certain capital items detailing for each type of item, the amount and the maximum term of financing;
- As part of the annual budget a Long Term Debt Forecast and Financial Obligation Management Plan to be adopted or affirmed by Council that will contain at least the following elements:
 - Projection for each year over a multi-year period of estimated long term debt and financial obligations payments compared to the annual debt repayment policy limit;
 - A statement indicating the plan is in compliance with this policy.

5 Responsibilities

Officers and staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein.

5.1 Delegation of Authority

The Commissioner of Financial Services / Treasurer will have the overall responsibility for the capital financing program of the Corporation.

The designated position(s) under the Commissioner of Financial Services / Treasurer will have responsibility for directing / implementing the activities of the capital financing program and the establishment of procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for capital financing activities. No person shall be permitted to engage in a capital financing activity except as provided for under the terms of this policy. The Commissioner of Financial Services / Treasurer shall establish a system of controls to regulate the activities of subordinate officials and exercise control over the staff.

In addition, the following specific responsibilities are identified

1. Commissioner of Financial Services / Treasurer
 - Reviews and recommends the type and term of financing for capital projects and operating requirements;
 - Calculates Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
 - Coordinates the preparation of debt issue by-laws for Council;
 - May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities, including the payment of principal, interest and other fees.

2. Clerk

- The Town Clerk may certify and sign documents on behalf of the Corporation with respect to the issues of debt securities.

5.2 Requirements of Outside Advice

The Corporation's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

This Policy is hereby approved by Council Resolution #190-18 on this 4th day of June, 2018.